

North Korean Economy: Beyond Globalization

ALFONSO OJEDA*

INTRODUCTION

North Korea is a country ruled by reclusive leaders. Due to permanent isolation, citizens have been living themselves locked in an imaginary world that is outside of the global trends. Observers regard North Korea as a new version of the “Hermit Kingdom”. Whereas most communist systems evolved in political and economic terms, embracing the free market and democracy, Pyongyang is still rooted in the collectivism and authoritarianism. There are some political expressions which are very familiar to the globalization movement but also are at odds with the North Korean ideology, such as free international trade, opening to internet, exchange of uncensored information, global migration, culture without frontiers, etc. Having said that, what is the point in studying the Globalization process in one of the fewer globalized countries in the world?

Apparently, our study is doomed to failure. No Globalization policy has been implemented in the Democratic People’s Republic of Korea (DPRK) for the time being. There is not even intention to do it. Opening the door to Globalization would mean welcoming capitalism and the regime can not tolerate such as danger to the political, social and economic system. However, we are going to deal with this topic for three reasons: First, North Korea is not totally unaware of this international phenomenon. On the contrary, the regime has paid keen attention to the wide variety of practical effects that this word can bring about inside and outside the country. A significant number of North Korean experts

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in many fields of specialization were trained in the most developed countries. They came back home carrying with them a first hand knowledge on how Globalization is affecting their host countries. Second, as we are going to see, there is a small room for Globalization in North Korea. Foreign investment, as a benefit of Globalization, can be used as a resource to revive its aging economy. And third reason: No matter how enthusiastic they can feel to get positive effects of the globalization, there is not doubt the North Korea has to deal with its negative effects, such as damage to the environment, trans border crimes and any kind of global problems. International co-operation and multilateral coordination are considered two basic tools to solve problems in the beginning of the XXI century.

CONCEPT AND SCOPE OF THE GLOBALIZATION

Some scholars have noted that the term “Globalization” is often used to describe so many different things that the term is essentially meaningless. However, we can agree that the term, one of the most controversial topics in the social science, is associated with increasing cross-border flows of goods, services, money, people, information and culture¹.

There are some connotations that could help us to describe this concept:

- More attention to international issues.
- Economic interdependence, driven by cross-border capital movements, quick technology transfer and development of the communication among counties.
- More trans-border activities by civil societies and enterprises (Non-Governmental Organizations, global productions network, translational investments, multinational companies).

On the other hand, the impact of Globalization may offer new challenges and threats:

- Environmental concerns. Not even a foreign border can stop an ecological disaster. Chernobyl experience and also accidents

¹ Guillén, Mauro F., *The Limits of Convergence*. Princeton University press, 2001, p. 5.

in transportation routes on the sea show us that environmental degradation tends to extend it through a considerable number of countries. We have currently witnessing the devastating effects of climatic changes on the people and territories. No a single country can stop its bad effects.

- Globalization increases a pressure on the scarcity of natural resources (water, energy, fishing, etc.).

- Economic development is attiring a large number of foreign workers causing a true problem of migration.

- Through the rise of communication and transport flows, national borders are getting more and more permeable, increasing the number of organized crime networks, international terrorism, drugs and weapon traffickers.

By and large, Asian countries show no sign of strong hostility to the ideas of openness and globalization. However, two countries, North Korea and Burma are implementing a “closed door policy” in a bid to maintain its own populations under a sanitary cordon that keep them away from the “infectious world”.

THE FAILURE OF THE COLLECTIVISM IN NORTH KOREA

Former President Kim Il-Sung forged a country based on the planned economy and on the collective property of the production means. Stalinism invaded economic life. Thanks to the assistance and trade with the Soviet Union and other countries from the Council for Mutual Economic Aid (CMEA/COMECON), the country was able to develop a powerful industry. After the demise of the Cold War, many communist countries evolved toward a transitional economy. Pyongyang rejected to adopt a new economic frame based on the free market. Gross national income per capita is estimated to have fallen by about one-third between 1990 and 2002.

There are some reasons that explain why North Korea has kept up its monolithic system in spite of all kind of difficulties:

- 1) People are tremendously prone to indoctrination. The official ideology is called “Juche” (self-reliance). It deals with a mixture of Marxism, Nationalism, personality cult and Korean Confucianism. No other alternative ideology is available there.
- 2) North Korea has suffered the consequences of a tragic history (peninsular division, war against a led-American army, boycott on trade and investment, economic race against South Korea to prove the superiority of communism over capitalism, etc). Isolation and rigidity have turned into a means of national survival.

FACING THE NEED TO MODERNIZE ECONOMIC LIFE

North Korea started pursuing a short ranking policy of reform and openness in early 1970s when the country attempted to build relations with Western countries. It adopted the Law on Equity Joint Ventures and the autonomy of enterprises' operation in mid-1980s. Then in early 1990s, the North created the Nanjin-Seobong Free Economic and Trade Zone. However, those kind of reforms were far to be successful. North Korea evolved at a turtle pace. The Army devoured a significant part of the national budget. Main macro economic decisions were taken under a rigid bureaucracy. At the micro economic level, companies were managed with old fashion skills. Economic difficulties increased more and more. Heavy industries reached such a degree of obsolescence that a group of South Korean experts considers that in case of reunification under the capitalist system all the industries should be closed, except for the military ones.

North Korea suffered a severe famine following record floods in the summer of 1995 and, according to western sources, continues to undergo chronic food shortages and malnutrition. United Nations World Food Program (WFP) provided substantial emergency food assistance beginning in 1995.

The country went on experimenting with various reform and liberalization steps within the limit of not threatening the Party's control. The North is also seen to be striving hard to build human and institutional infrastructure to link the foreign countries. Pyongyang dispatched a considerable number of civil servants and researchers to the United

States and Europe to build up its ability to ahead joining the international community.

Facing economic difficulties North Korea's leader, Kim Jong-Il, first had to talk about a "new way of thinking" (2001) and encouraged the "promotion of creative thinking in provincial areas (March, 2002). A radical boost toward economic changes was going take place in the country. Starting in July, 1st 2002, the regime announced a series of relevant measures. In retrospect, we can see that the country is moving from a rocky Stalinist economy, which was founded by Kim Il-Sung, to a pragmatic socialist economy with expanding market elements. The point is to know how significative and fast is this move toward a reform that enhances domestic economic performance.

The economic management reform covers a limited range of economy policy measures. Among them, we have to mention the following: decentralization of economic planning and management except for some national strategic sectors; fixation of prices based on real production factors; expanded autonomy in business administration for companies and factories; introduction of capital good exchange markets; giving more importance to currency in economic management; raised salaries to meet the rising cost of food and ordinary needs; devaluation of the North Korean currency against the U. S. dollar.

The Government named its economy policy as "practical-gain" or "real-gain" socialism. They have in mind the need to make real profits in running factories and businesses. According to Yoon Hwang and Kim Il-gi² the most significant changes in the North Korean economy since the adoption of the July, 1st 2002 Measures are the emergence of various markets, including a general merchandise market, a bartering market and a imported goods market. In 2003, the North officially used the term "economic reform", for the first time and announced plans to expand the farmers markets into a general merchandise market system that also would deal with industrial goods.

One unintended economic consequence of the 2002 changes has been severe inflation. An increasing number of North Koreans now try

² See Yoon Hwang and Kim Il-gi, North Korea's Reform and Openness after July, 1, 2002 Measures, *Korea Focus*, Vol.14, NO. 2, Summer 2006, p. 99.

to work in the informal sector to cope with growing hardship and reduced government support.

The Kaesong industrial complex was created to attract South Korean investment. The complex is located just over the border 43 miles north of Seoul on the route to Pyongyang. This 810-acre complex aims to attract South Korean companies. Apart from its economic reasons, the complex provides a channel for rapprochement between the North and South Korea, a bridge for communication, an instrument of defusing tensions and a management school for North Korea to learn how to do business. Inter-Korean economic cooperation would get a win-win game where competitiveness would be brought about by coming South Korea's capital and technology and North Korea's land and a low-cost supply of labor for manufacturing products. However, there is a remaining problem. The expectation that North Korea would gradually change the isolation policy through economic interchange is becoming a mere mirage.

Given that the North Korean nuclear crisis is right now far to be solved (even after signing a commitment to settle the issues a minor tension can arise and damage any expectations of peace and stability), many South Korean citizens tend to think that this industrial complex should wait for a considerable time in order to guarantee that the North Korea regime is a reliable partner and there is no doubt about its fully integration in the international community. Unless the North Korean nuclear crisis is truly resolved, international isolation will be more acute than in past years. Indeed, this long problem is against foreign trade, economic assistance and foreign investment in North Korea. There are around one hundred South Korean enterprises operating in this complex. The combination of the low cost of labor, land, and logistics, paired with South Korean companies' capital and technological capabilities have the potential for creating dynamic synergies, but political and economic sanctions against Pyongyang may ruin this symbol of economic reconciliation and economic cooperation. North Korea can not repeatedly shut and open the transit to the district because of political tensions. It takes a steady environment that enables South Korean businessmen to make investments with a sense of security³.

³ Shin Eong-sang, The "Miracle" of Kaesong Complex, *Korea Focus*, Vol. 17. No. 2, Summer 2009, p. 13.

CONCLUDING REMARKS

The Government has not intention to change the economic model, although it is testing the advantages and disadvantages of the market economy in three *capitalist areas or laboratories* (or laboratories for the Capitalism), which are the *Special Administrative Region (SAR)* in Sinuiji at the western end of the North Korea-China border, zones at *Mount Kumgang* and the above mentioned *Kaesong Industrial Complex*). Those areas have to be seen in a far-reaching policy and their potential is rather limited because of its reduced territory of activities.

DPRK has also to overcome a problem related with the future leadership. Reports about the leader's weak health, Kim Jong-Il, aroused speculation about possible change in the power structure. There are at least three scenarios for succession: transfer of power to one of his family member with Kim providing guidance for his successor; a collective leadership and military rule. Whatever scenarios takes place, it will be more complex and hard that the power transition in 1994, when Kim Il-Sung, father of Kim Jong-Il, unexpectedly died.

We can see another factor of instability in the country. Is North Korea a reliable partner for the member of the international community? The nuclear crisis has damaged still more its poor record of credibility. Besides, DPRK has been accused for exportation medium-range missiles and weapon of mass destruction, drug trafficking and counterfeiting.

However, let us bear in mind some positive steps of the long and hard process toward a new economic atmosphere based on the economic opening, interdependence, pragmatism and more rational decisions making. Firstly, Pyongyang has periodically expressed interest in joining the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). The country has already joined the Association of Southeast Asian Nations (ASEAN) and if North Korea-United States relations entered into a path of normalization, Pyongyang would join global institutions at an easy way.

What is the impact of the current global downturn on North Korea? Given the regime's opacity and the lack of reliability in North Korean's statistics, any answers to that question should be should be considered provisional. Prof. Kim Yong-ho thinks that there is no sign yet that the

global economic crisis is directly affecting the economy. However, the North is expected to begin feeling the pinch in the latter half of this year, and the impact will be quite significant considering the small scale of the country. On the other hand, the worldwide recession will likely lead to lower international prices for food, oil and other resources, which will benefit North Korea⁴.

But the regime is totally lost without Chinese assistance and trade. Pyongyang is largely depending on China for economic support and investment. North-Korea-China trade accounts for about 25% of the real country's economy⁵. Trade between the two countries totalled US\$2.78 billion in 2008, up 41.2 from a year earlier. Roughly 80-90% of the goods available in the North are Chinese-made. China is the best example of the new economic drive for North Korea, because Beijing could manage to liberalize its economy while maintaining its political system. Progressive economic opening and liberalization even in a formerly centrally controlled economy may lead to beneficial changes without threatening the political power. Indeed, China and also Vietnam have aggressively opened their economies to foreign investment and the ruling communist regimes have remained in place. Ironically enough, rapid growth and rising living standard has ensured the role of the Communist elite.

As for the domestic economy, authorities try to downsize the importance of the heavy industries, which represent the worse of the system: obsolescence, inefficiency and low competition. Nowadays the country has emphasized three priorities: agriculture, defence and light industry. They have also explored the potentiality of tourism letting inbound visitors to Mount Kumgang.

In short, economic reform and the Free Trade Zones have featured an end to the rationing system for daily commodities, except for food which is the best challenge of the country. In the short run, authorities

⁴ Kim Yong-ho, Influence of the Global Economic Crisis on the North Korea's Economy and Policy on South Korea, *Korea Focus*, Vol.17, No.2, Summer 2009, p. 87.

⁵ The Bank of Korea estimated the size of the North Korean economy at about US\$27 billion (GNI). However, the size of the real economy was estimated to be US\$12-13 billion as of 2008.

have to solve a dilemma: How to liberalize prices without causing a high inflation. Since 2002, market prices have been increasing up to the extend of doubling every year at an annual inflation rate something above 100 per cent. Those reforms have provoked a devaluation of the official exchange rate. Moreover, foreign coupon system is over. Enterprises enjoy a higher level of autonomy and foreign visitors can see some kind of shops in the country. North Korea has not intention to bury the socialist planned economy so far this time, but extraordinary needs have forced it to reform certain aspects of it.

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